

1928

Era of consolidations

Anonymous

Follow this and additional works at: https://egrove.olemiss.edu/dl_hs



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

Haskins & Sells Bulletin, Vol. 11, no. 11 (1928 November), p. 81-82

This Article is brought to you for free and open access by the Deloitte Collection at eGrove. It has been accepted for inclusion in Haskins and Sells Publications by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

ATLANTA
BALTIMORE
BIRMINGHAM
BOSTON
BUFFALO
CHARLOTTE
CHICAGO
CINCINNATI
CLEVELAND
DALLAS
DENVER
DETROIT
JACKSONVILLE
KANSAS CITY
LOS ANGELES
MINNEAPOLIS
NEWARK
NEW ORLEANS
NEW YORK
PHILADELPHIA
PITTSBURGH

HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

BULLETIN

EXECUTIVE OFFICES
15 BROAD STREET, NEW YORK

PORTLAND
PROVIDENCE
SAINT LOUIS
SALT LAKE CITY
SAN DIEGO
SAN FRANCISCO
SEATTLE
TULSA
WATERTOWN

BERLIN
LONDON
MANILA
PARIS
SHANGHAI

HAVANA
MEXICO CITY
MONTREAL

VOL. XI

NEW YORK, NOVEMBER, 1928

No. 11

The Era of Consolidations

COMPETITION, traditionally referred to as "the life of trade," today frequently finds itself branded as a "menace to business."

In that ideal state which economists assume as an hypothesis upon which to base their reasoning, free competition is held not only to be a boon to consumers, but to regulate production so that it is confined to a profitable basis.

In that practical world with which business enterprise actually has to deal, free competition may be advantageous to the buying public, but statistics show that it does not always keep production within the bounds of profit.

Boarding houses spring up in a city like New York, not because compiled data show that there is a profitable demand for more and better boarding houses, but frequently because some uninformed widow must seek a means of economic existence, and she determines to "try her luck" at accepting paying guests. The result usually is a short-lived experiment, continuing until the meagre capital has been exhausted.

Business ventures, too often, are like city boarding houses. They are likely to be begun without adequate survey of the field and scientific planning of the operation. Frequently, they are continued, regardless of demand, without knowledge of

costs, and with intermittent, if not continuous, losses of capital.

The facts, if they could be developed, probably would show that many businesses are started without a possible chance of economic success. They are continued in the face of certain failure. They battle with competition which is sure to be fatal. The entrepreneurs "try their luck" when there is no luck to be had. The outcome is preordained.

Such is the condition of thousands of small enterprises today. The business in their respective fields is so organized that they cannot compete and survive. High costs which go with small volume of production sap their capital and leave them, sooner or later, stranded in the bankruptcy courts.

The day of small business in this country probably is past. Consolidation is the order of the day. Every industry seems to be headed toward the formation of larger units, working on a basis of sound and sane competition. The economists may yet realize their ideal state.

In the meantime, the accountant must understand what should be his part when business units are brought together. He must furnish, in consolidated form, the results of past performances of the units. He should not undertake to prophesy what

their future will be in case they are combined. Such is the function of the promoter, or the entrepreneur, or the capitalist who backs the enterprise.

The wisdom, on the part of the accountant, in taking this attitude is indicated by the results of a study relating to twenty representative consolidations effected about 1925. The companies in this group after consolidation, showed an increase of net income in 1926 over 1925 of 34.17%. In 1927, as compared with 1926, these companies showed an increase in net income of

only .37 of 1%. Net working capital in 1926 was 10.6% greater than in 1925. But in 1927 it was only 3.07% greater than in 1926.

These figures, considered without relation to general business conditions and other factors which may have affected the individual companies, are not conclusive. They do, however, support the suggestion sometimes made, that the economies resulting from consolidation soon are offset by new and unforeseen expenses incident to consolidated operation.

System Work Initiated by the Cash Questionnaire

By R. A. DALRYMPLE

COST records, it has been stated, constitute a pivot on which swing the control of inventory, internal audit of payroll, and knowledge of profit or loss realized on various products handled. In fact, it is believed that the good management of an enterprise often swings on the same pivot.

The importance of cost records, therefore, needs no amplification to the accountant, but many accountants need to be more deeply interested in the matter of ways and means of cost finding. It is highly specialized work, and therein lies the opportunity for individuality and adaptability. If a client's cost work is inadequate, poorly adapted, or improperly controlled, every accountant, granting that his advice has been requested, or is desired, should be able to make concrete recommendations for improvement of the system as specifically as he would in the matter of cash accounting and control.

The accounting for costs in enough detail to permit of ready comparison with the market price of similar commodities is one of the most important features of any accounting system. The work of obtaining such data frequently is exceedingly com-

plex and at times a client will deem it impracticable to include a detail cost system as a part of his accounting organization. Notwithstanding this, an accountant may still urge the vital necessity of cost statistics and will insist that such statistics, to be fully reliable, must be an actual part of the bookkeeping procedure. When faced with the expense which such work frequently entails, clients perhaps will not be willing to admit the necessity.

In such cases the opportunity is presented to the accountant of devising controlling accounts which are susceptible to monthly reconciliation with actual conditions and thus would prevent an erratic costing of sales. In other cases, by the issuance of material in accordance with a definite production schedule, it is possible to control the cost of material and, by this control, to measure the cost of direct labor. The factory overhead frequently can be apportioned to various products by using the percentage of overhead to direct labor. In cases where the fluctuation is either so wide or irrational that the resulting costs would be distorted, a recognition of the relation of the total proposed production for the year to the total proposed annual